

PE exits create significant value

For private equity (PE) firms, successful exits (asset sales) realise value for investors, provide re-investment opportunities and create a track record relevant for consequent fund raising. Successful exits distinguish top quartile private equity firms from their peers.

When structuring an investment, private equity houses also structure exit possibilities simultaneously. PE investors work towards increasing the value of the asset through manifold levers including operational improvements, streamlining/expanding product or service lines, restructuring, and then seek to part ways with the investee company through either a secondary sale, IPO, or other exit means.

Successful exits are significant for many reasons but primarily an exit realises the alignment of interests between all stakeholders - PE firms, portfolio companies, management teams, and investors.

According to Preqin* the number of global private equity exits remained muted for the second consecutive year in 2023 despite signs of improving conditions for

sales to corporate strategics and IPOs.

Global exit totals were nearly unchanged year over year, with Preqin recording 1,962 private equity exits in 2023 compared with 1,959 in 2022, when inflation and interest rate hikes slammed the IPO window and an uncertain economic outlook dampened M&A activity.

But while exits declined in each quarter of 2022 –

Private equity-backed exits by type, 2021–2023

Number of exits



Data compiled Jan. 11, 2024.

* Includes bankruptcy/write-offs, private placement/follow-on, sale to management and unspecified exits.

Source: Preqin Pro.

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bottoming out in the fourth quarter – the opposite was true in 2023, with exit totals building quarter by quarter.

We see an uptake in exits through 2024 as economic conditions improve, stabilisation of interest rate movements provide more certainty and the exit momentum of 2023 continues, albeit from a lower base.

More broadly, the anaemic state of new listings on domestic public equity markets has prompted some investors to question what exit strategies may be pursued in the current environment.

In reality, Federation always pursues a dual track approach when looking to exit businesses. That is, we look at both the public markets alongside other potential buyers in private markets simultaneously. This dynamic strategy enables us to optimise an exit by considering offers and market conditions in real time.

The dual-track exit strategy begins with a thorough evaluation of the portfolio company's readiness for both an IPO (including on which Exchange to list) and a trade sale. This assessment encompasses financial performance, market dynamics, regulatory considerations, and potential synergies with strategic buyers.

By running these parallel paths, private equity firms such as Federation hedge their bets and capitalise on the most favourable market conditions.

*Preqin: <https://www.preqin.com/>

One of the key advantages of the dual-track approach is its ability to adapt to evolving market conditions. As the process unfolds, we closely monitor investor sentiment, industry trends, and macroeconomic factors to determine the optimal exit route.

If market conditions favour IPOs, the firm can proceed with the public offering, capitalising on the potential for higher valuations and liquidity. Conversely, if a compelling opportunity arises, the firm can pivot towards a trade sale, leveraging competitive bidding to maximise shareholder value.

This flexibility empowers Federation to seize opportunities and navigate unforeseen challenges, ultimately driving superior outcomes for investors.

CASE STUDY: GEORGE HEALTH

Federation invested in healthcare holding company George Health in November 2019 with an intended investment horizon of up to 5 years.

George Health subsidiary George Clinical provides project management services of trials for pharmaceutical manufacturers, biotechnology companies and medical device companies. Federation's interest in George Clinical was sold to Hillhouse Capital Group in July 2023 delivering Federation with a 53.4% net IRR on our investment in George Clinical which equates to 3.8x MoM over 3.5 years.

With the successful sale of George Clinical, Federation's George Health investment now comprises of George Medicines, a late-stage pharmaceutical company.

In late 2023, George Medicines' leading hypertension combination pill, GMRx2, received strong topline results from both active and placebo phase III clinical trials which was necessary for George Medicines to commence the Food and Drug Administration (FDA) approval process. GMRx2 is targeting FDA lodgement in July 2024 and has embarked on a commercialisation and distribution strategy in the United States, Canada and South American markets.

George Clinical is the first asset to be sold from Federation's private equity Fund I (Federation Alternative Investments).

IN CONCLUSION

Private equity exits come with challenges that require careful navigation. During the exit process, certain key considerations such as tax, due diligence, compliance with relevant laws, regulations, and regulatory approvals are significant in a smooth exit process.

Also, monitoring market conditions, aligning stakeholder interests, ensuring exit readiness, and executing the exit plan effectively are needed to overcome these challenges and achieve successful exits, especially in 2024 and going forward.

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